B4750-1
1/24/83

Financial Markets

Irving Trust

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Economic Research &
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Friday
(Noon)

Jan. 21, 1983

The market quieted on the question of a possible discount rate cut by the Federal Reserve this week--what better time for one to occur? Talk had centered around the prospect for a rate easing to soften up Congress prior to Mr. Volcker's February testimony before the banking committees, where the monetary growth targets for this year will be laid out. While still an intriguing prospect, other events of the past week may provide the scope for the Fed to cautiously lower its discount rate again.

Economic data released during the week, while not abysmal, were generally in the pessimistic ranges of the market's expectations. Industrial production declined in December, but at a slower rate than in the recent past. Last month's spurt in housing starts reversed but left a clear modest uptrend. Last year's real growth registered a 2.5% (annual rate) decline in the fourth quarter, leaving the year down by 1.8% overall, the worst decline since 1946. The good news was the modest 0.1% uptick in December's finished goods prices, accompanied by a much better than expected 0.3% decline in the consumer price index. Thus, 1982 concludes with the lowest rate of CPI inflation in the past decade. Taken alone none of these factors is of great significance. Together, however, they form for policymakers a picture of a continued very weak economy, with at best hope--certainly not signs--of an incipient recovery. Progress on inflation provides scope for a rate cut, while protracted economic weakness offers sound rationale.

Internationally, pressure seems to have intensified for a coordinated reflation. The Group of Ten, a body consisting of ten major industrialized countries, agreed to provide the International Monetary Fund with $12 billion in new resources to help other financially strapped IMF member countries. This follows an agreement "in principle" last month to increase the IMF's quotas and, thus, its basic capability to lend by 50%. Treasury Under Secretary Beryl Sprinkel was quoted as calling for economic stimulation, a quote which led Treasury Secretary Regan to state that Mr. Sprinkel spoke for himself, not the Administration, and that there had been no change in basic policy.

These events, some of them reflecting longer-term problems, indicate the continued turmoil among policymakers, who see a need to reflate but wish to avoid stimulating inflation. The political and economic situation abroad, best exemplified by the failure of the Bundesbank to lower key West German interest rates, points to a continued need for the U.S. to go first or join in on any interest rate cutting. The dollar certainly can take it. Perhaps the strongest factor weighing against a Fed decision to drop the discount rate is the bond market's reaction to the last cut--yields rose. Nonetheless, myriad factors point the other way. Indeed, if the bond market has not already discounted the discount rate cut, the market might even react favorably.

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Market Yields

	1/21/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	15.75%
Effective since	1/11/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	8.13	8.38	13.63
Repurchase Agreements	8.13	8.38	12.88
U.S. Treasury Issues			
Bills			
3 months	8.16	7.92	13.45
6 months	8.49	8.08	14.40
1 year	8.78	8.36	14.97
Coupons			
2 years	9.36	9.10	15.02
4 years	9.93	9.60	14.87
7 years	10.47	10.13	14.72
10 years	10.51	10.24	14.64
Long Bond	10.74	10.40	14.23
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.10	8.10	13.50
3 months	8.30	8.15	14.00
6 months	8.55	8.25	14.65
1 year	8.85	8.65	15.00
Banker's Acceptances			
1 month	8.05	8.05	13.25
3 months	8.05	8.10	14.00
6 months	8.10	8.30	14.60
Eurodollar Deposits			
1 month	8.88	8.75	14.00
2 months	9.00	8.75	14.38
3 months	9.00	8.75	14.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	7.00	7.88	13.00
1 month	7.63	8.00	13.13
3 months	7.75	8.13	13.25
Bank Holding Companies			
1 month	7.13	7.75	12.50
Dealer Placed:			
3 months	7.38	8.04	12.63
New AA Corporate Utility Bond	12.65	12.35	17.00
Tax Exempt			
6 month Project Notes	4.60	4.40	7.10
1 year AAA Bond	5.00	4.50	8.10
5 year AAA Bond	6.10	6.15	8.90
20 year AAA Bond	8.60	8.60	12.20

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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